REBUILDING ZIMBABWE: LESSONS FROM A COALITION GOVERNMENT

Tendai Biti
Visiting Fellow, Center for Global Development

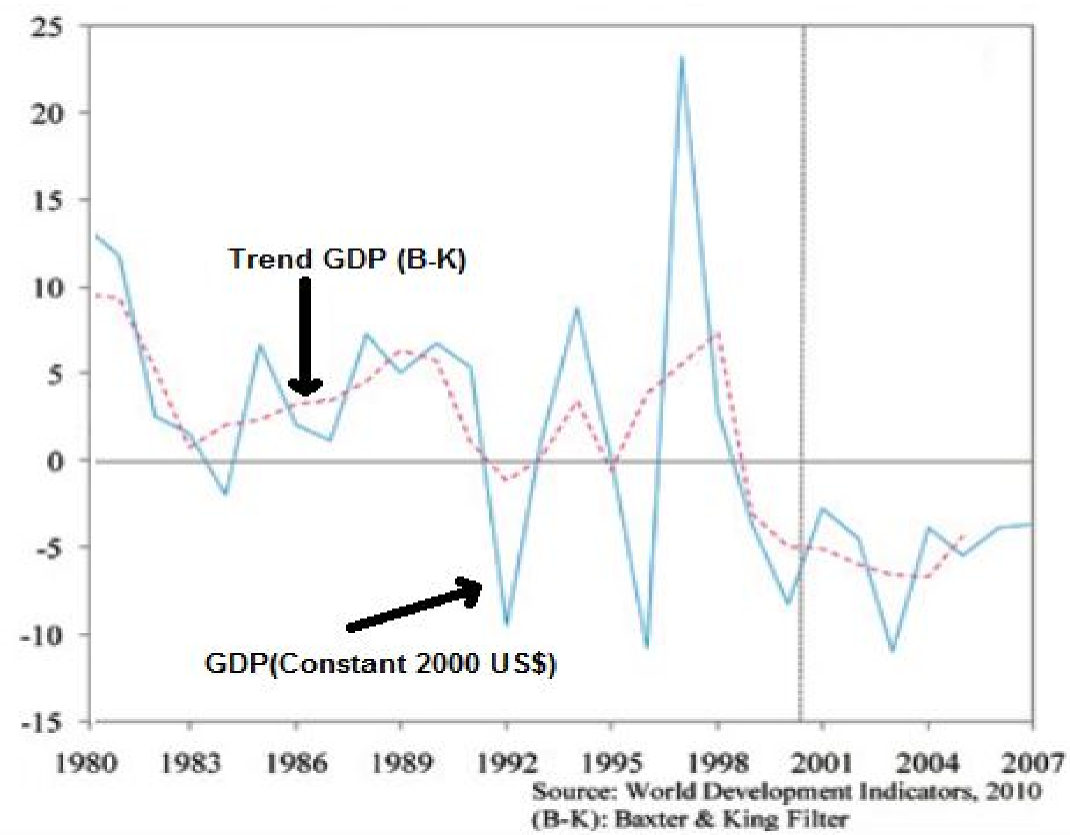
CGD is grateful for contributions from the African Development Bank in support of this work.

Contents

INTRODUCTION

Since independence, Zimbabwe's economy, like many African States', has been characterized by cycles of moderate growth followed by periods of decline and regression, as well as structural disequilibrium (Figure 1). A narrow productive base, adverse weather conditions and an inconsistent policy regime have been responsible for the cyclical nature of the Zimbabwean economy.

Figure 1. Zimbabwe's growth pattern (1980-2007)



The economic challenges of the 1980s and 1990s, however, pale when compared to the crisis that the country would go through from 1997 to 2008. Within a few years, a once decent economy collapsed, setting grisly records. Zimbabwe's lost decade offers valuable insights into the consequences of self-induced policy distortions and of subordinating sound fiscal policy to expediency and political survival.

The economic meltdown

Between 1997 and 2008, Zimbabwe underwent unprecedented economic decline (Table 1). The collapse was of proportions never recorded in any country not physically at war. The economy lost more than half its value, which dwarfed previous pre- and post-independence contractions.

Inflation became the ultimate expression of failure and a source of many jokes. Average inflation, which stood below 20% in the mid-1990s, reached 55.8% by 2000. In 2002, bets were on over whether it would reach 100% by year-end; quite a few won those wagers. By the end of 2003, it had escalated to 365%. Thereafter, it was a free-for-all. Month-on-month inflation was exceeding a million percent, which gave new meaning to the term hyperinflation. When official inflation skyrocketed to 231 million percent in July 2008, the Government instructed the body tasked with collecting CPI data to stop producing inflation figures. The IMF team that visited Zimbabwe in March 2009, however, calculated that inflation peaked at 500 billion percent in September 2008.

For ordinary Zimbabweans, life was a nightmare. The most basic transactions became a challenge. Prices would treble during the short time required to pick up a product from a store shelf and reach the cash register. Paying for a loaf of bread demanded bags and bags of local currency. In August 2008, the central bank redenominated the Zimbabwean dollar, slashing zeroes from the notes. By December 2008, Zimbabwe's highest currency unit was a Z$10-trillion note, which could not even buy two cans of Coca Cola.

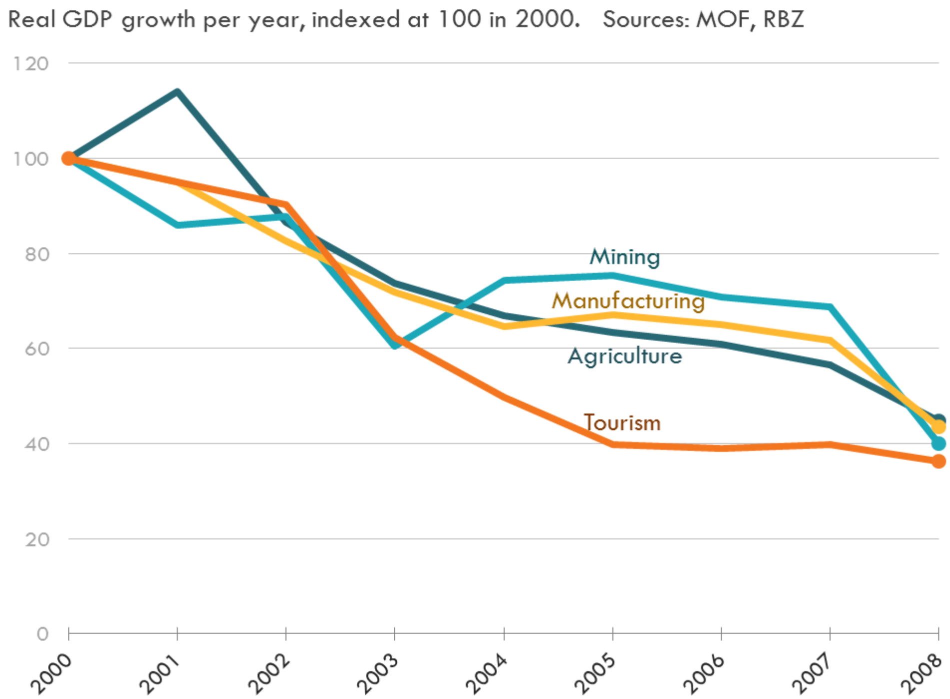
Table 1: Selected Indicators 2000-2008

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Real GDP growth (%)	-8.2	-0.2	-5.9	-7.4	-3.6	-4.0	-3.6	-3.3	-14.1
Nominal GDP (US$ millions)	7,041	7,026	6,609	6,120	5,898	5,659	5,454	5,276	4,379
Inflation (annual avg. %)	55.8	71.9	133.2	365	350	238	NA	6,724	231 mil
Population (millions)	NA	NA	11.6	11.6	11.7	11.8	12.0	12.0	12.0
Total External Debt (US$ million)	3,525	3,422	3,510	3,812	4,071	3,978	4,246	5,285	5,690
External Debt Arrears (US$ million)	438	692	1,287	1,768	2,017	2,075	2,478	2,754	3,079

Sources: MOF, Reserve Bank of Zimbabwe (RBZ), and Central Statistical Office (CSO)

Tourism, agriculture and manufacturing shriveled (Figure 2). Capacity utilization slumped to a staggering 2 to 10%, suggesting a major deindustrialization that translated into company closures, layoffs and retrenchments. Formal unemployment ballooned to 85%.

Figure 2: Real GDP dropped by over 55% in each sector from 2000-2008



Sources: MOF, RBZ

The external account position was parlous and porous, with a current account deficit equivalent to 28% of GDP in 2008, up from 11 % a year earlier. This gap was financed largely from unofficial diaspora remittances—which bypassed the financial sector and are therefore impossible to quantify—external payment arrears, central bank external borrowings, a decline in net international reserves, and very modest inflows of private capital. International reserves had melted to US$6 million dollars—or just one week worth of imports. The external debt in 2008 was estimated at US$6 billion, or 189% of GDP (Table 2).

Table 2. Foreign Position Indicators

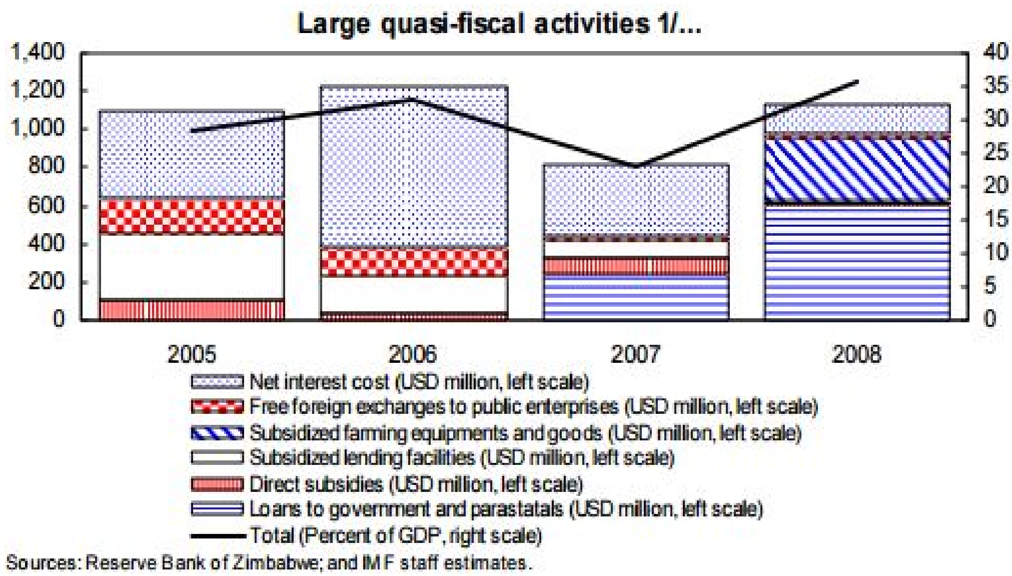
	2007	**2008**
Current account balance (% of GDP)	-10.8	-28.5
Gross official reserves (US$ million e.o.p)	58	6
Months of imports of goods and services	0.3	0.2
External debt (US$ millions, e.o.p)	5,285	6,027
Percentage of GDP	149	189

Source: IMF, Zimbabwe: 2009 Article IV Consultation – Staff Report

Facing a contracting economy and the consequent decline in fiscal revenues, the government turned to the printing press. Fiscal policy openly shifted to the central bank, which began to carry out operations referred to as "quasi-fiscal activities". By 2008, these activities stood at a staggering 36% of GDP, up from 23% in 2007.

Quasi-fiscal activities included the provision of agricultural equipment and inputs such as fertilizers, transfers to parastatals, subsidized direct lending to banks and other companies, subsidized foreign exchange transfers, and the purchase of military supplies and hardware (Figure 3). In 2008, the Bank also financed the national elections.

Figure 3: Recent Monetary and Exchange Rate Developments



Source: IMF, Zimbabwe: 2009 Article IV Consultation – Staff Report

Unsurprisingly, the printing press was unable to keep pace with the expansion of local currency, generating cash shortages, a black market for foreign exchange, and at least four separate exchange rates.

The country's economic collapse was reflected in government revenue, which tumbled from US$1billion in 2005 to US$134 million (or 3% of GDP) in 2008. The State went into retreat, and the government shut down. Public servants—whose effective wage had sunk to US$2 a month—no longer bothered to report for work, and no one cared.

Public expenditure had also retreated from $1.4 billion in 2005 to US$258 million in 2008 (equivalent to 6% of GDP). Social services collapsed. Schools and hospitals closed in droves in 2007 and 2008. So did universities. Zimbabwe's social indicators plummeted (Table 3).

Table 3: Selected Social Indicators for Zimbabwe

Indicator	1990	2000	2006
Human Development Index (rank)	121	128	151
Human Poverty Index (Rank among 108 poor countries)	…	60	91
Net primary school enrollment (%)	…	…	82
Adult literacy (%)	67	89	89
Infant mortality rate (per 1,000)	61	73	81
Under five years of age mortality rate (per 1,000)	87	117	132
Maternal mortality rate (per 100,000 births)	330	700	880
Under nourished people (% of population)	46	47	…
Life expectancy (years)	60	43	41
Population using improved water (%)	78	85	81

Source: MOF

The above statistics, for all their bleakness, fail to fully capture the suffering that ordinary Zimbabweans endured during that period. The one thing critical to State functionality is the capacity to feed its citizens. In 2007 and 2008, there was very little food in Zimbabwe. Shops were empty, but were not allowed to shut down. Images of bare shelves will forever haunt the Zimbabwean psyche.

These shortages and the collapsing social services bred death. Official statistics released at the time showed that 4,000 Zimbabweans were dying every week, mainly from malnutrition, tuberculosis, HIV/AIDS, and road traffic accidents. In 2008, the country was hit by a massive outbreak of cholera, a shameful sign of the breakdown of water and sanitation systems. Over 140,000 people were sick, and more than 4,000 died.

The country had fallen apart, and the State had failed. Yet, government authorities remained in control of the security and political infrastructure. Zimbabwe exhibited the paradox often found in fragile and collapsing States on the African continent: the strange coexistence of total collapse and total control.

The Government of National Unity

In 2008, the country had held a general election. The opposition Movement for Democratic Change (MDC) narrowly won control of the lower house of Parliament. The Presidential election, on the other hand, had to go to a second round, which was marred by violence. Robert Mugabe, the then 84-year-old president of Zimbabwe, was controversially re-elected.

Faced with a Zimbabwe on the brink of a political and economic precipice that threatened to plunge the region into turmoil, regional leaders pushed for a political settlement. The country's economic meltdown had already been weighing on its neighbors, and in March 2007, regional leaders had mandated South Africa to facilitate dialogue amongst Zimbabwe's three main political parties.

Following the controversial 2008 election, South Africa's president, Thabo Mbeki, used that mandate to push for a settlement amongst the Zimbabwe National African Union-Patriotic Front, or ZANU (PF), led by Robert Mugabe, the MDC led by Morgan Tsvangirai and another smaller formation of the MDC led by Arthur Mutambara.

On September 15th, 2008, the political parties agreed in principle to form a government of national unity (GNU). As a result of protracted and often vicious disagreements, it wasn't until January 2009 that a settlement that allowed a new coalition Government to be formed was clobbered at a last ditch summit of regional leaders.

On 16 February 2008, Zimbabwe began its experiment with the new Government of National Unity (GNU).

Setting the agenda

When the GNU began to work, the economy was at a crossroad. Given the extent of the crisis, a radical rethink was required. That change required boldness, fairness and solid craft and competence. It would also mean pain. Zimbabwe was dying, and emergency surgery was in order.

The GNU had to start by identifying the nature and causes of the crisis. African policy makers often make wrong and faulty diagnoses of their situation, which in turn results in false solutions. At the same time, they create excuses and apologies for failure. In the polarized status quo of Zimbabwe then, economic challenges were all blamed on external factors, particularly Western imposed sanctions.

The new authorities at the Ministry of Finance understood that the immediate challenges facing the economy arose from self-imposed distortions. For a long time, the country had been suffering under the weight of costly, inconsistent and incoherent policies, and that needed to be addressed urgently.

The Government needed an emergency plan to navigate the myriad of challenges that faced the country. But a plan alone would not be enough. Zimbabwe had had many economic blueprints since independence, but few had been implemented. If anything, the country suffered from an excess of unexecuted programs. The plan therefore had to be credible, realistic and relevant. In order to be so, it had to carry everyone on board.

It also required identifying the key national priorities. Many fragile states fail to do so, or try to address every problem at once, and therefore never get anything moving.

In 2008, food availability was clearly top of any agenda. Agricultural production had sunk, with maize production less than a fifth of the country's requirements. Shops were empty, and donors including the World Food Program were providing food to vulnerable communities. Following close on the list of priorities was hyperinflation. Taming out-of-control price increases would require a prudent micro-economic framework and unprecedented fiscal discipline. A third priority was to restore social service delivery, particularly health and education. Schools were closed, and hospitals were operating without drugs, staff and other essential amenities. People were dying in large numbers. Another major priority was to rebuild national confidence and trust. In broken and failed States, what suffers most is faith and belief in Government, and Zimbabwe was no exception. Following years of economic mismanagement and policy reversals, the government and the Ministry of Finance suffered from a severe trust deficit both at home and abroad. To repair the economy and government finances, confidence had to be rebuilt.

Zimbabwe had to be rebuilt brick by brick from the foundation. Turning around the economy was a key cog in this reconstruction, but not the only agenda. Peace and democratization had to be pursued alongside nation-building programs such as national healing and constitutional reform.

CRAFTING A ROADMAP: THE SHORT-TERM EMERGENCY RECOVERY PROGRAM (STERP)

From the very first day of the new Government, the Ministry of Finance set about to craft a new economic blueprint.. The Short-Term Emergency Recovery Program (STERP) was to be the roadmap, the plan that would set the direction of the new Government. The new Government was able to build on existing material. The President's office and the Reserve Bank had prepared draft plans. In addition, the Harare office of the United Nations Development Program (UNDP), under the leadership of Mark Simpson, had developed a document titled the "Comprehensive Economic Recovery in Zimbabwe".

Led by economists from its Fiscal Affairs Department, the Ministry of Finance, under its new leadership, worked in record time to produce a draft. It received valuable inputs from some of Zimbabwe's top economists, including Daniel Ndlela and Peter Robinson. Dr. Godfrey Kanyenze at the Zimbabwe Congress of Trade Unions, university professor Tony Hawkins, and Patrick Bond of South Africa's University of KwaZulu-Natal all contributed as well.

Within a week, the plan was ready.

STERP was articulated around four main areas. First, macroeconomic reforms were developed to contain hyperinflation, negative interest rates and a runaway budget deficit. Second, supply side measures were designed to kick start production and stimulate capacity utilization. Third, establishing social safety nets to support the most vulnerable would address poverty. The final area dealt with interventions promoting peace and democratization, including financial support for constitutional reform.

On February 24th, 2009—the GNU's second Cabinet meeting—STERP was approved. A month later, it was presented to regional heads of states at an extraordinary SADC summit convened at Lozitha Palace in Swaziland to mobilize resources for Zimbabwe. The document was well received.

STERP would guide Zimbabwe's rebuilding and stabilization efforts over the following four years. Its strength lay in its relevance, frankness and soundness. That it was a solid home-grown plan, crafted in record time by Zimbabweans for Zimbabweans, was its greatest asset. This was appreciated by many at home, and created deep-seated ownership. It also impressed donors and regional leaders, and provided a useful platform for engagement and dialogue.

With a clear plan in place, Zimbabwe was ready to turn words into action.

KILLING THE ZIMBABWEAN DOLLAR

STERP's macroeconomic provisions included the adoption of a multi-currency regime, using the South African Rand as reference currency. Hyperinflation and inadequate foreign currency rules had turned the Zimbabwean dollar into a vehicle of arbitrage. Those who had access to foreign currency were profiting from the multiple exchange rates and the continuously falling value of the local currency. In the second half of 2008, most unofficial rates had collapsed. The only surviving benchmark was the UN rate of US$1 to Z$35 quad trillion.

The Zimbabwean dollar had become worthless, and useless. Markets and the public adopted alternative pricing methods, including barter trade and reliance on foreign currency, largely the US dollar and the South African Rand. By doing so, virtually every Zimbabwean became an unintentional criminal, flouting the tough legal provisions proscribing such practices, and the State machinery enforcing them.

On January 29th, 2009—a few weeks before the advent of the GNU—the old government belatedly presented a $1.7 billion budget for 2009 and announced that foreign currencies were to become lawful tender alongside the Zimbabwean dollar. No exchange rates were specified in the statement, which de facto legalized parallel market rates. Unfortunately, the government also announced that civil servants would be paid with vouchers issued by the Central Bank equivalent to US$100, of which US$40 could be redeemed in cash and the rest in goods and services from specific shops. This effectively meant that the Central Bank would be "printing" US dollars, which would have catastrophic consequences.

In the first cabinet meeting held on February 17th, 2009, the new Minister of Finance thus declared to his colleagues that the voucher system was to be abandoned, and that all public servants would be paid in cash. That position was communicated to the country that very same day in the new government's first press conference. Then on March 17th, the new government presented to parliament a revised budget of US$1 billion and in the same statement legally buried the already moribund Zimbabwean dollar, effectively demonetizing the local currency.

Zimbabwe's adoption of the US dollar was not a classic dollarization. Balances held in Zimbabwean dollars were not compensated or exchanged against US dollars, and local currency banknotes in circulation were not mopped up. Zimbabweans still holding Zimbabwean dollars just woke up to find their money had lost all value. In reality, most people had long abandoned the local currency. All the government did was formalize what had already happened. As a result, the change was smooth and seamless.

Killing the toxic Zimbabwean dollar was critical. It offered the country a fresh opportunity and a new beginning.. Keeping it alongside the foreign currencies that had become legal tender would have infected the entire system and created distortions from which we would never have recovered. Getting rid of the dysfunctional local currency allowed more solid monetary regimes to become fully operational in the country, bringing in stability and rationality.

This was essential, but not sufficient to tame hyperinflation.

"WE EAT WHAT WE KILL"

Following years of overspending and careless money printing, Zimbabwe's dire situation called for fiscal discipline, austerity and balancing the books. Cash budgeting not only held the key to a sustainable economic recovery, but also signaled a clear break with the past. Such signals were essential to restore confidence in the MOF.

In the Revised Budget Statement of March 2009, the Government explained the concept of cash budgeting in prehistoric terms:

> "The natural law of cash budgeting is "what we gather is what we eat" or "we eat what we kill". This is the basic economic law of hunter-gatherer economies. No ministry or public agency should expect to eat beyond what we have gathered through collection of taxes, fees and any other legitimate sources of revenue. "What we gather, we eat" unambiguously defines the priority not just in the Ministry of Finance but throughout all arms of government. If we want to continue eating, we must all focus our minds and energies on maximizing the revenues that are needed first to get those of us in the public sector back to work and then to implement all of the pressing issues."

Cash budgeting proved to be an effective to tool of fiscal management. It allowed the Ministry of Finance to plan, through what was called a Resource Allocation Committee chaired by the permanent secretary. Indeed, it allowed the Ministry full control over all fiscal affairs, whilst protecting itself against insatiable demands from all quarters. Faced with huge demand, high expectations and no fiscal legroom, the Ministry had to say "no" a lot.

One side of the cash ledger was revenues. In January 2009, the government had collected a paltry US$4m. Excise tax had become the main source of income, whereas personal and corporate income tax accounted for only 11% of government revenues. Part of the solution was to channel economic activities that had been pushed into the informal sphere back into the formal one. Dollarizing the economy and removing the export surrender requirement facilitated that effort. Trust in the MOF was gradually rebuilt. Without granting a formal amnesty, the Government instituted a "no question asked" policy on tax payments, so those who had been dodging taxes could start paying again without fearing reprisals. By June 2009, the Government was collecting US$90m a month.

Besides gathering more, the GNU needed to spend less.

One of the effective by-products of cash budgeting was what was called the Targeted Health Infrastructure Financing. Health infrastructure had collapsed. Hospital buildings were crumbling, and operations were further crippled by dilapidated boilers, mortuaries, or laundries, and, of course, by devastating shortages of drugs and other usables. Unfortunately, there wasn't enough money to revive all hospitals at once. So the Government targeted one hospital a month, starting with Harare Hospital, followed by Mpilo Hospital in Bulawayo, Zimbabwe's second city. By injecting a couple of millions dollars, institutions on the brink of death came back to life. The Government successfully used this targeted approach to public sector investment throughout the entire duration of the GNU.

Reining in fiscal spending also required putting an end to the Central Bank's gargantuan quasi-fiscal activities, and returning control of the purse strings to the MOF. This turned into trench warfare and took almost two years. The powers of the central bank first had to be legally clipped by amending the Reserve Bank Act. The Bank was to be stripped of its quasi-fiscal authority and to focus on managing monetary policy and the local currency, overseeing the financial sector and advising the government when asked to do so; but with the Zimbabwean dollar dead and buried, there was in fact no local currency to manage. The Bank's Governor, Gideon Gono, was not going to see his authority so significantly diminished without a fight. And what a fight that was.

The bill amending the Reserve Bank Act was by far the most contested of all the laws of the GNU. The debate in Cabinet turned into an epic fight pitched along party lines that lasted several months. The Cabinet eventually approved it, as did the MDC-controlled Lower House. It was however stalled for months in the Senate, controlled by ZANU (PF). The Bill was only passed after the intervention of the President, after it was pointed out to him that the Senate was in fact undermining his authority as chair of Cabinet. The amendment finally became law in March 2010, and a new Reserve Bank board was appointed.

But this was not yet the end of the war: obtaining audited accounts from the Reserve Bank turned into another uphill struggle. Further data production from the Bank to the Government and other partners, in particular the IMF, was poor. In fact, the IMF later imposed as a precondition to a Staff Monitored Program (SMP) the provision of quality and timely data from the Reserve Bank.

By 2011, however, fiscal authority had been fully reclaimed and firmly rested with the MOF. The nasty dogfight was finally over.

Sorting out the currency and putting an end to chronic "fiscalitis" went a long way to stop hyperinflation in its tracks. Inflation figures were closely monitored and every movement tracked. Reining in public spending and runaway prices also provided a solid foundation to rebuild the economy and repair public finances. But Zimbabweans needed food and jobs, and the public purse needed tax revenues. Drastic measures were needed to revive the private sector.

KICKSTARTING THE ECONOMY

A plethora of restrictions, including laws, regulations and practices, stifled business. They had to go. Chief among these was the export surrender requirement, which compelled all exporters to surrender at least 15% of their export earnings to the central bank. The Government also removed price controls, as well as a host of export and import tariffs that were not conducive to business.

Adopting foreign currencies, opening the borders and unshackling private businesses had an immediate and dramatic impact on food availability. Shelves filled up. A dramatic mood of confidence and buoyancy gripped the nation.

Reviving productive capacity also required capital, as well as functional financial markets. Financial markets are the bedrock of modern economies, and their functionality is often taken for granted. But in fragile states it takes a lot to establish, maintain or resuscitate them. Zimbabwe's financial infrastructure was in disarray. The interbank market, the national payment system and the real-time gross settlement (RTGS) system had all but collapsed, largely because the central bank had ceased to function as a lender of last resort. The Government had to push and cajole banks into executing agreements, which the government itself underwrote, restoring the inter-bank market as well as the RTGS.

Liberalizing the interest rate regime and moving towards positive rates was key. The banking sector had been devastated by hyperinflation, negative interest rates meant to lighten the government's huge domestic debt burden, as well as various raids on foreign currency accounts (FCAs). The Zimbabwean Stock Exchange (ZSE), shut since November 2008, also needed to get back to work. The Government had to force it to re-open, which it did on February 19th, 2009.

To address the persistent liquidity and funding challenges, the Government created funds supporting industry, commerce and agriculture. It set up the US$100m Zimbabwe Economic and Trade Revival Facility (ZETREF) jointly with the African Import and Export Bank, and the US$40m Distressed and Marginalized Areas Fund (DIMAF) with insurance and pension group Old Mutual.

Besides crafting reforms, the Ministry of Finance had to fight fires on a daily basis. It was like an endless game of economic whack-a-mole. Crises erupted every day, and needed to be solved urgently: one day there was no water in Bulawayo, Zimbabwe's second largest city; taps ran dry at the University of Zimbabwe; there wasn't enough power, or not enough flour, or not enough chickens. I had to be creative, pragmatic and fast.

None of this would have been possible without the strong united team at the Ministry, careful navigation of the Cabinet's choppy waters, and broad support built at home and abroad.

Building a common vision

Economic reconstruction and rebuilding has often required a few strong-willed individuals to lead from the front. The Asian Tigers offer multiple examples of such individuals that almost singlehandedly pursued an agenda that led to economic transformation and turnaround. Lee Kuan Yew of Singapore is one such example.

If individuals are important drivers for change, so too are institutions bound by a common vision. The new leadership at the Ministry of Finance strove to build an institution united by a common vision. That vision was to transform and turn around Zimbabwe after a devastating decade.

In situations of fragility, building a coherent team bound by a common purpose can make the difference between success and failure. The MOF team consisted of mostly young, freshly graduated economists. What they lacked in experience, they made up with smarts and dedication. The new Minister assisted by a group of eight top directors, including the Permanent Secretary, led the Ministry. The MOF team was bound by a high level of trust, which proved essential to execute necessary reforms. A lot of that trust was built while developing STERP.

A sense of common purpose and good working synergies were built with several other offices within the Government. Much relied on building personal relationships across party lines. The President's Chief of Staff, Dr. Misheck Sibanda, was a useful ally to the Ministry. He understood the vision and the efforts undertaken. The Ministries of Agriculture, Tourism, Transport and Infrastructure Development were key partners as well.

Agriculture had traditionally been the mainstay of the economy, contributing an average 35% of GDP in 1990-1997 and a significant source of jobs. Agriculture was always the first item on the agenda during Cabinet meetings. The Ministry of Finance recognized this, and more than US$2 billion was raised to finance the sector over the duration of the GNU, mainly from foreign donors and capital markets. At the same time, significant reforms were needed, and the MOF worked closely with the Ministry of Agriculture to move away from a subsistence model of agriculture totally reliant on state funding to a more market driven and self-sustaining model. Agriculture marketing boards created before independence were still in place, and these monopolies were distorting the market—and draining government coffers—by subsidizing inputs and fixing artificially high prices. A commodities exchange was created to sideline these boards, but it never became operational. In 2010, a $210-million agriculture facility was created through local banks to fund farmers.

The Ministry of Transport, Communications and Infrastructure was another key partner of the MOF, and both ministries agreed on priority projects. Zimbabwe's road and railway infrastructure was decayed. Paved asphalt roads with a life span of 20 years had more than doubled their expected tenure. Most the infrastructure had been designed to cater for a small pre-independence population. It could not withstand the huge urban population influx that took place after independence.

Resources, which included a drawdown from Zimbabwe Special Drawing Rights (SDRs) held with the IMF, were mobilized towards roads and other infrastructure projects. The Development Bank of Southern Africa provided US$262 million to rehabilitate of a 500km stretch of road from Plumtree Border Post to Forbes Border Post, linking six of Zimbabwe's biggest cities including Harare, the capital, and Bulawayo, the second city. Rural district councils were supplied with equipment to maintain the gravel roads that make up 85% of the country's 88,000km of roads. Work on the dualization of a 73km stretch of road linking Harare to Marondera was financed through the Government budget. The runway at Harare's international airport was repaved. Old projects started years earlier by the previous government, including the Joshua Nkomo Airport in Bulawayo, were completed.

Good relations between the Ministry of Finance and the social Ministries of Education and Health were easier to develop, since the MDC held both portfolios. Construction and repair of social infrastructure was an ongoing process. All negotiations with key partners, such as the World Health Organization and UNICEF, required the involvement of the line Ministry. Donors funded an Education Trust Fund administered by UNICEF, together with a Basic Education Assistance Module that helped parents pay for school fees. Being on the same side of the political divide, however, did not guarantee total agreement. The MOF and the Ministry of Education, for instance, held diverging views when it came to how much should be spent on school infrastructure.

Some bridges were thus built within the GNU that created sufficient cohesive energy to drive the reform agenda. For a moment, particularly during the first two years of the GNU, it appeared as if Zimbabwe really had a chance.

Navigating waterfalls

Governments are naturally complicated constructs. A great deal of patience, wisdom and restraint is required for any type of a government—even a single-party majority administration—to function. Coalition governments are bound to be more complex. Distinct parties must establish trust, a difficult thing when they are mired into permanent political competition. They must also agree on a common vision and a common plan, as well as how to execute it. Finding common ground on these four issues alone is often difficult.

A coalition government born out of disputed and violent elections—such as Zimbabwe's GNU was—is even more challenging. ZANU (PF) and the MDC have thoroughly differing ideological backgrounds. ZANU (PF) is a liberation movement that cut its teeth primarily in the struggle for the decolonization of the country. The MDC formations, on the other hand, are post-liberation movements that have come into existence principally as a result of the liberation movement's failures and weaknesses.

By the time the GNU came into existence, the MDC had been the target of sustained attacks from the ZANU (PF)-controlled state since the party's formation in 1999. Its leaders had been assaulted, tortured, imprisoned, kidnapped and some had lost their lives. The two protagonists thus found themselves trapped in the same government. Regrettably but unsurprisingly, old tensions and mistrust did not disappear. An invisible permanent wall kept on separating both sides.

Forging common positions in such an environment was not easy. A lot of time was spent on political fights and cheap point scoring. Decisions were weighed through the lens of political advantage, rather than economic logic. Getting things done was therefore a herculean effort that required a lot of thinking, dexterity and maneuver.

Besides a charged political past, fundamental policy differences existed on the major issues that could move the country towards a long-term sustainable position. Major areas of conflict centered around property rights, agriculture finance, reform of state enterprises, the indigenization policy, the size of the public service and the method of debt relief.

On property rights, the previous government had carried out a land reform program in which 15 million hectares of land had been taken away without compensation from its previous white owners. Whilst everyone accepted that the land reform was irreversible, there was serious resistance to democratizing of the land reform itself. Suggestions made in STERP that everyone on land should be entitled to a leasehold title, which could be given as security to financial institutions, were refused. Yet without collateral, banks would never fund agriculture. The reform had also created multiple ownership, in addition to individuals failing to use land productively. An audit agreed upon in the agreement that gave rise to the coalition government was never carried out.

State enterprises continued to drain the fiscus. Huge amounts were being disbursed monthly to ailing State-owned enterprises. Many of these parastatals were serving no strategic national purpose. The Government agreed in principle to privatize at least ten of them, and the Inter Ministerial Committee on Commercialization, Privatization and Rationalization was constituted. Yet for four years, no agreement could be reached on a course of action, and not a single enterprise was reformed or privatized.

Another major area of policy conflict was the country's economic empowerment policy. The law stated that 51% of all business and new investment in Zimbabwe had to be owned by locals. The policy had a negative impact on foreign direct investment, but all attempts to change the law were futile.

Engagement with the West was also a source of conflict within the GNU. The European Union had imposed travel bans on key government leaders in 2002. In response, Zimbabwe had pulled out of the Commonwealth and in turn begun to execute what it called a "look east" policy. New members of the Government felt that Zimbabwe had to be fully re-integrate the international community and needed to improve its relations with the West.

The "look east" policy also created differences over debt strategy. Parts of the GNU considered traditional debt relief methods such as HIPC as a surrender to the West and therefore unacceptable. Much time was spent arguing over this issue.

Considering the legacy of violence and fundamental policy differences dividing the two sides of the GNU, it is a huge achievement that anything at all was actually done.

BRINGING ZIMBABWEANS ON BOARD

Without broad consultation, policymaking becomes a sterile exercise that takes place in a vacuum. Ministers that fail to engage with the people become feudal lords driving in air-conditioned limousines, shielded from the real world by a coterie of aides. Keeping in touch with reality requires consultations and public discussions. Ordinary citizens deserve to be heard and to influence policy. They also deserve to be given the tools to keep those in government accountable. This requires open communication and transparency.

The new MOF leadership was determined to rebuild bridges between the Ministry and Zimbabweans. Rebuilding trust was also essential to economic and fiscal recovery. The Ministry thus deliberately adopted an open-door policy, which included immediately posting documents and press statements on a revamped website. Regular consultative meetings were organized with trade unions, businesses, professional associations, and civil society organizations. Formal meetings were scheduled every two months or so, and discussions often happened in between, whenever the need arose. MOF officials consulted stakeholders on budget or technical matters that fell within their domain, and in the process developed personal relationships with most of their leaders. When confronted with a national chicken shortage, the Ministry talked to the farmers' union to understand what was going on, and figure out how the problem could be solved. Not enough flour? Phones would ring at the millers association. No financial sector reform was possible without consulting bankers and insurers. The Ministry also served as a referee among competing interests—listening to retailers and manufacturers argue their case, or to bankers and the Reserve Bank battling it out—before making a decision.

Pre-budget consultations were a good way to engage the general public. Every October, a team led by the Minister traveled throughout the country, attending town hall meetings. It listened to what was on people's minds in all 12 provinces. This had never been done in Zimbabwe. Each community had different concerns and priorities, although they almost always had to do with social delivery and poor infrastructure. These discussions greatly informed crucial budget decisions.

The budget preparation and presentation was an annual marathon, leaving staff exhausted but brimming with a deep sense of accomplishment. Enriched by public inputs and intensive consultations, the budget process culminated with an annual statement outlining the country's challenges, as well as proposed solutions. As a result, the National Budget became more than an instrument of planning and resource allocation: it was a national statement driving both the political and economic agenda.

Throughout the rest of the year, the Ministry gave monthly addresses outlining the state of the economy and providing key statistics, followed by a press conference. A budget odometer was posted on the MOF website. Every letter sent to the Ministry was acknowledged, before being directed to the appropriate level for action.

This extensive outreach program and open-door policy allowed the Ministry to keep its finger on Zimbabwe's economic pulse. It also signaled that the MOF was not only ready to listen, but also willing to be transparent and held to account. To most Zimbabweans, this was a breath of fresh air, and a clear break from the past.

REACHING OUT TO THE WORLD

Rebuilding bridges at home was essential to the reform process. So was reaching out to the international community. Following years of isolation and crisis, Zimbabwe needed help.

At the inception of the GNU, the Zimbabwean government had no relationship with international financial institutions (IFIs). The IMF had suspended Zimbabwe's voting rights in 2003, the African Development Bank (AfDB) had closed its office in Harare, and the World Bank maintained a skeletal presence. Zimbabwe had started defaulting on its debt obligations in 1999, and accumulated arrears prevented any further borrowing from IFIs and Western donors. It meant no access to concessional finance or to international capital markets.

The new government immediately set out to reengage the bilateral and multilateral donor community. Serious discussions with foreign governments, the European Union and IFIs were held. Those discussions were frank and helpful. The existence of STERP with its unequivocal positions further helped to establish trust and to position the MOF as a serious and competent interlocutor.

On March 9th, 2009, the IMF sent a team to review the economy. It was the Fund's first visit since 2006. They found an administration in great difficulty, but eager to move. The Fund turned out to be a valuable and genuine partner, and the MOF developed an organic relationship with successive IMF representatives. The MOF ran the show, but the IMF provided technical help and served as an intellectual bank. They were part of a network of experts upon which the MOF relied to obtain feedback on the reform efforts.

By February 2010, the Government had managed to persuade the IMF's Executive Board to restore Zimbabwe's voting rights. This was a proud moment. But part of the reengagement with the IMF also involved negotiating a staff-monitored program (SMP), a prerequisite to normalizing relations with the donor community. In 2010, the MOF tabled the proposal to initiate the SMP process in Cabinet. To say that there was a lot of resistance is an understatement. The Cabinet fought for hours. But President Mugabe appointed a sub-committee chaired by Arthur Mutambara—the Deputy Prime Minister and leader of an MDC splinter party—to make recommendations. The sub-committee members were clear supporters of the SMP. Unsurprisingly, it recommended that the MOF should go ahead, and the Cabinet then authorized the SMP discussions.

Paving the way to the SMP was a plan to deal with Zimbabwe's crippling debt. The MOF crafted a Zimbabwe Accelerated Arrears, Debt and Development Strategy (ZAADDS), which Cabinet approved in 2010. ZAADDS was a home-brewed document that sought to tackle Zimbabwe's debt through comprehensive debt relief and arrear clearance, the creation of a Debt Management Office, the reconciliation and validation of debt figures, as well as leveraging Zimbabwe's own resources through tax reform and improved transparency and management of the country's mineral revenues.

Armed with ZAADS, the MOF began the painstaking and sometimes thoroughly frustrating process of negotiations with the IMF, which went on for three years. In May 2013, a month before Zimbabwe was due to finally sign the SMP, the Fund requested a letter confirming Cabinet support. This was bad news to the Ministry. Tabling another discussion in Cabinet was sure to reopen a can of worms. Ahead of the Cabinet meeting, the Minister of Finance approached the Chief Secretary to President Mugabe and the Cabinet. Referring to the 2010 Cabinet decision, he drafted the letter that afternoon, and it was never debated. The letter was so important that the MOF had it framed. In June 2013, the SMP was signed. This was Zimbabwe's first agreement with the IMF in over a decade, and amongst the GNU's greatest achievements. The SMP was a milestone in Zimbabwe's efforts to normalize its standing with IFIs and donors.

The relationship with the World Bank, on the other hand, was disappointing. Although the World Bank provided critical technical assistance, particularly in the area of public service reform, the MOF's request for an infrastructure audit went nowhere; the AfDB eventually picked up that ball, and delivered the audit. The MOF never felt that it had built a productive partnership with the World Bank.

Zimbabwe's experience with the World Bank contrasted with the close relationship it developed with the AfDB and its president, Donald Kaberuka. By 2010, the Bank had reopened an office in Harare, and kindly agreed to manage a donor-funded facility—known as the Zim-Fund—to support infrastructure projects selected by the GNU. The facility was channeled into rehabilitating water and sanitation in several municipalities, as well as upgrading the Hwange power station and electricity sub-transmission and distribution.

The MOF also convinced bilateral donors and the European Union to provide vital support, particularly to social sectors. The country's external debt position made it difficult for them to provide direct funding to the government, but they could be persuaded to channel resources through various trust funds run by United Nations agencies. These trust funds supported initiatives dealing with education, health, a new census and the drafting of a new constitution. These facilities were set up in a way that allowed the government to solely determine how the money would be used, but guaranteed transparency and accountability, as well as more acceptable procurement methods and a way for donors to measure the impact of their social investments.

The MOF met and briefed the donor crowd in Harare at least once a month, and regularly traveled to their capitals. Managing such a wide range of partners, and navigating the inconsistencies between foreign representatives in Zimbabwe and their head offices was at times challenging. It was worth it though: foreign partners ended up pumping into the economy close to $1 billion a year through various programs. Combined with the MOF's targeted spending approach described earlier, these much-needed foreign contributions were critical to the ongoing efforts to revive social service delivery.

Financial support from South Africa, on the other hand, was not as forthcoming. When STERP was presented at the SADC meeting in March 2009, South Africa pledged ZAR500m, which was spent on the health sector and on rehabilitating the sewerage system in Harare. The GNU, however, failed to convince President Jacob Zuma's administration to provide any further financial support.

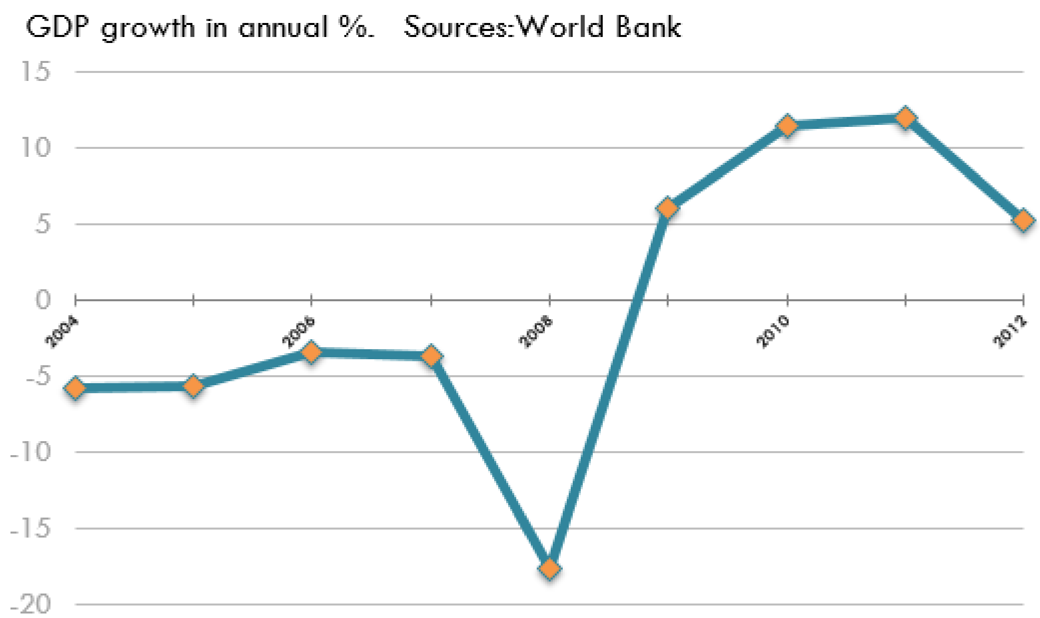
RESULTS

By July 2013, Zimbabwe felt like a different country.

In some areas, dramatic improvements were felt almost immediately after the onset of the coalition government. One spectacular success was the end of hyperinflation. By June 2009, monthly inflation had fallen below 1%; by year-end, it had dropped to -7.7 %, the lowest on the continent. During my time in office, inflation averaged less than 4%—a far cry from the days of 500 billion percent.

For the first time in 14 years, the economy expanded in 2009, with GDP recording a 5.5% growth. During the first two years of the coalition government, Zimbabwe was in fact the fastest growing economies in the world, expanding by an average 9% a year.

Figure 4: Change in Zimbabwe's annual GDP growth 2004-2012



The fiscal situation also recorded a dramatic turnaround. Economic recovery, normalized inflation, and tax reform transformed government revenues, which more than doubled from 16% of GDP in 2009 to an estimated 36% of GDP in 2012. In 2009, the public purse relied heavily on excise tax, with personal and corporate income tax contributing only 11%. By 2013, income tax generated a third of revenues, with VAT adding another 30% or so. Spending was reined in, and the budget deficit dramatically compressed.

The legal and regulatory environment affecting the economy was much improved. Besides amending the Reserve Bank Act, the Zimbabwe Securities Act was overhauled, the Zimbabwe Stock Exchange demutualized, and a raft of new laws—dealing with income tax, anti-money laundering, public finance, the audit office, deposit protection and microfinance, to mention just a few—were on the books. More than nine out of 10 bills brought to Parliament by the GNU came from the MOF.

The provision of social services, which was in disarray in early 2009, was making a comeback. The GNU normalized vaccination ratios for children; stabilized the incidence of HIV and lowered the rate of new infections; lowered maternity and infant mortality rates; and increased access to both medical and education services. In 2009, one textbook had to be shared by 45 schoolchildren; in 2013, each student had their own textbook. By 2012, we were able to scrap maternal fees in public hospitals.

One of the MOF's great achievements was the ability to pay public sector wages on the day they fell due. In most places, honoring civil servants' salaries is taken for granted. Given our meager and unpredictable resources, however, the wage bill was a recurring nightmare. That we never defaulted or paid late is nothing short of a miracle.

The revival of foreign trade was equally remarkable—even though the trade deficit persisted. By 2013, our foreign exchange receipts had recovered to $7.3 billion. Tallied against where we were coming from, this was impressive. Grocery shelves were no longer bare.

Notwithstanding the progress, a lot remained to be done. By 2013, Zimbabwe's sovereign debt stood at $10.7 billion, and much-needed foreign financing was still out of reach. The country's infrastructure alone required an estimated $14 billion to get back into shape. The financial sector remained fragile, and structural reform incomplete.

The drivers of growth

The stability ushered by the new regime of multiple currencies and the economic reforms pursued by the GNU spurred Zimbabwe's economic growth. The removal of toxic policies centered on export surrender requirements, excessive protectionism, price controls and a more positive attitude towards wealth creation were critical. So was the restoration of trust and confidence in the economy, which in turn encouraged investment. Business that had shut down reopened, struggling companies revived themselves, and production upped. The increase in capacity utilization from 4% to 60% between January and December 2009, as well as much higher tax compliance, largely reflect confidence in the Government and the reforms undertaken. Having reached rock bottom in 2008, Zimbabwe also benefited from a rebound factor common in post conflict situations.

Commodities underpinned a significant portion of the country's economic growth. The boom in international commodity prices helped Zimbabwe's mining sector, which contributed 40% of GDP in 2010—up from 8.5% in 2009—as well as more than 70% of exports. The massive expansion of the mobile communications infrastructure and the drop in handset and SIM card prices following the removal of custom duties also supported economic expansion. Mobile phone penetration increased from 8% in 2008 to 52% in 2009. The improved political environment resulted in a revival of tourism, whose contribution to GDP rose as high as 11% in 2011. Although agriculture continued to be key to the country's economy, its recovery was more subdued. Following a contraction of 38.3% in 2008, the sector rebounded with a 14% growth in 2009, but expansion moderated to 10% in 2010. The revival of manufacturing, which accounted for 15% of GDP in 2009, made the sector the largest recipient of bank lending and the largest private employer.

Unlike in so many African economies, multiple sectors made significant contributions to Zimbabwe's gross national output, ensuring a diversified and balanced economic growth.

Lessons learnt

In July 2013, Zimbabweans went to the polls. ZANU (PF) regained control of Parliament, and President Mugabe was re-elected. The coalition government came to an end.

On balance, Zimbabwe's coalition government contributed greatly to both political and economic stability in a country ravaged by turmoil and conflict. From that perspective only, it must be given a pass rate. Although many were opposed to the idea, there is no doubt that it was the best solution for Zimbabwe at the time. Difficult as it was, Zimbabwe's coalition government offers an alternative path to nation building in a continent seeped in the winner-takes-all tradition. Much of Africa—and Zimbabwe is no exception—is crippled by pervasive exclusion, whether ethnic, regional or racial. The concept of coalition government, if it is made to advance inclusion, can be useful.

At the same time, sustainable economic development cannot take place amidst war or violent political conflict. Investment must be made in peace and nation building, as well as democratic reform. There is no alternative to constitutionalism, the rule of law, and a functional and legitimate electoral system. Although the GNU period provided Zimbabwe with a degree of political stability, and unprecedented dialogue took place across the political divide, much remains to be done to advance democratization and national healing.

The Zimbabwean example highlights the importance of forging a consensus around a common national strategy or vision. Without a fundamental agreement over the country's developmental trajectory, effective policymaking and reform cannot take root. Much has to do with leadership. A strong, focused and transformational leadership that puts the national interest above all else can drive an effective economic reform agenda at a sustained pace, as evidenced in Rwanda, Ghana and Botswana. The lack of common vision and effective leadership in Zimbabwe were responsible for the GNU's many shortcomings and incomplete reforms. Without consensus on the roots of the country's problems, there was no chance to agree on solutions.

Zimbabwe, on the other hand, was blessed with human capital and resilient institutions—both of which are so often lacking in fragile states. Although emigration had weakened the country's capacity, the government could still rely on capable and well-trained public servants, and administrative systems were still in place. Once correctly mobilized, these were assets that proved essential to design and implement reforms. Even though the country was on its knees, the State had largely retained its capacity to deliver, which could be revived with financial resources and a renewed sense of direction. In addition, Zimabwe's civil society—from trade unions to business associations—remained strong and provided both oversight and a positive influence on policy making. Few countries in Africa, let alone fragile states, have demonstrated the ability to craft and implement a homegrown, credible and realistic recovery program the way Zimbabwe did with STERP.

Four things should be the focus of the economic recovery in fragile states:

Microeconomic stability. The era of high inflation, huge budget deficits, high interest rates, unsustainable debt levels, and distorted exchange rates is largely gone. Fiscal sustainability and anti-cyclical policies are now the buzz words. Capital and financial markets must work, and the regulatory framework must be sound. Competitiveness and the ease of doing business must be addressed.

Addressing the infrastructure deficit. Fragile states suffer from poor or insufficient infrastructure. Much of Zimbabwe's infrastructure is decayed. The country requires US$14 billion to address its infrastructure challenge. Domestic resources are insufficient to close the infrastructure gap. Good relations with the IFIs are critical, which requires resolving any outstanding sovereign debt issues.

Social spending. Most fragile states also suffer from a deficit in human capital. Without adequate human capital, State institutions cannot function and deliver properly, the private sector cannot thrive, and the impact of foreign assistance is thwarted. Investments in education and health are required to address that deficit. Similarly, social transfers to the poor are required to lift—and keep—the most vulnerable out of poverty. As noted above, Zimbabwe was well endowed in human capital, thanks to past investments in health and education. But human capital can erode within one generation or faster, and emigration and a decade of economic and political crisis have taken a heavy toll on Zimbabwe's human capital. Ideally, fragile states ought to ring fence social spending and provide equitable provincial and local authority with grants targeted towards the social budget in order to encourage inclusive growth.

Job-intensive economic growth. Unemployment, particularly youth unemployment, is a major source of instability and social friction. Lack of economic opportunities constitutes a fertile recruitment ground for violent groups such as Al Shabab and Boko Haram. Economic growth alone cannot bring sustainable development, unless it generates enough jobs. Yet many fragile states' economies are not diversified and often rely heavily on the mineral sector. This economic concentration in the extractive industry not only fails to create sufficient employment, but also leaves the economy subject to fluctuations in international prices. Generating diversified and job-intensive economic growth requires sound supply-side reforms and policies encouraging savings and foreign direct investment.

Perhaps the greatest lesson from Zimbabwe is the danger of subordinating economic policies to political expediency and ideology. This cost Zimbabwe a decade of government overspending, money printing and overall policy failures that fragile states can ill afford.

THE ROAD AHEAD

What of Zimbabwe now? For all its warts, the GNU laid a solid foundation for recovery. It offered a glimpse of what was possible, and of what the country and its people are capable of.

Zimbabwe needs fiscal sustainability and microeconomic stability. The public wage bill must be contained to sustainable levels, and the Government has to live within its means to avoid budget deficits and, at the very minimum, maintain a primary national balance. At the same time, a balance must be struck between recurrent and capital expenditures. Spending 92 % of the budget on recurrent expenditures is also not sustainable. Yet the new administration has done away with cash budgeting, and deficits are once again ballooning. Quasi-fiscal activities are creeping up.

The biggest challenge Zimbabwe faces in the short term is recession. The economy has been on a free fall since 2013, crippled by deflation, stagnation and massive deindustrialization. Capacity utilization has once again sunk to 20 %. Foreign direct investment and foreign aid have dried up. Confidence has evaporated. The indigenization law must be repealed, and doing business made easier.

The financial sector is vulnerable. Many banks are undercapitalized, and the ratio of nonperforming loans dangerously high. There is no lender of last resort. Treasury Bills issued to finance the growing fiscal deficit have pushed US-dollar interest rates up to 28%, which cripples business. To finance its deficit, the Government has also been raiding bank balances kept at the Reserve Bank, which further weakens the banking sector.

The mining sector suffers from a lack of transparency and of proper regulation. Zimbabwe is a major producer of diamonds, largely through companies in which the state has a stake, yet no meaningful revenues are remitted to Treasury. Zimbabwe still needs to develop a sound mining policy to properly leverage its mineral resources.

There can be no genuine recovery In Zimbabwe without a massive injection of capital. Support is needed from the East and the South, but also from the West and the North. China and the BRICs are essential partners. But so is the Western world. Zimbabwe cannot afford to stand alone, or have too few friends. Yet no meaningful foreign assistance will be forthcoming until Zimbabwe resolves its foreign debt arrears and negotiates debt relief. In addition, development assistance and foreign direct investment are unlikely to materialize in sufficient amounts without political reform.

Zimbabwe's biggest challenge remains political. Until genuine democratization, inclusion, reconciliation and national healing take place, the country's prospects will look grim. Zimbabwe is blessed with enormous potential: it sits on world-class platinum, chrome, diamonds, and iron ore deposits; its economy is diversified; and its population small and educated. Turning that potential into prosperity, however, requires the kind of leadership that cannot flourish in the current political situation.